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CENTRAL INTELLIGENCE AGENCY
Office of the Chief, Economic Research
Office of Research and Reports

Project Action Memorandum

Project No. 20.1686
Date: 26 Dec 56
Initiated: 12 Dec 56

TITLE: Food and Coal Situation in Poland and East Germany

REQUESTER: DD/P

STATEMENT OF THE PROBLEM AND TERMS OF REFERENCE:

Problem: To prepare estimate of food and coal situation in Poland and East Germany including agricultural production, food supply for remainder of year, evidence of food shortages, most likely areas of shortages; production and consumption rates for coal by seasons and current shortages by type 1 stocks and reserves.

Terms of Reference: Terms of reference have been transmitted by instructions of Ch/E and the original requester. M/AG and M/S will furnish contributions to Chief, D/M, who will coordinate the contributions. The results of this project will be transmitted to the requester in typescript form. No formal publication is expected to result.

RESPONSIBILITY:

		<u>Man-hours</u>	<u>Due Dates</u>	<u>Concurrence (Initials)</u>
<u>Action Division:</u>	D/M			
<u>Branches:</u>	M/AG	50	20 Dec 56	<i>[Signature]</i>
	M/S	50		
<u>Staff:</u>	St/FR			<i>[Signature]</i>
<u>Principal Analysts:</u>				
<u>Project Monitor:</u>				

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This project will not delay completion of currently scheduled projects.
The classification of this project will be no higher than SECRET.

APPROVED

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FOOD SITUATION IN POLAND AND EAST GERMANY

No. Poland

No. 1956 Agricultural Production

A preliminary estimate of the 1956 harvest of grain, potatoes, and sugar beets indicates a gross agricultural production slightly under that of 1955. A 21% increase in potato production approximately compensated for 14% and 18% declines in grain and sugar beet production respectively. Actual production was officially reported by the government to be below 1955 levels.

Category	1955 Production (1,000 MT)	1956 Production (1,000 MT)
Grain	9,425	8,014
Other grains	3,611	3,014
Total grain	13,036	11,028
Potatoes	25,550	31,578
Sugar beets	7,340	5,968
Raw sugar	(1,078)	(810)
Gross Agri. Prod.	24,508	21,756

Livestock numbers are reported to be above the 1955 levels for cattle. There is no reason to believe, therefore, that meat and milk production during 1956/57 will not equal or slightly exceed last years.

2. Grain

Poland has required a loan of 1.4 million tons of grain from the West for 1957 delivery. If delivered, this quantity would be more than Poland imported in 1954/55 when the grain crop was smaller than in 1955. The potential for exporting sugar has received a setback as a result of the shortfall in sugar production; sugar production was some 500 thousand tons below plan. Exports of meat products to the West will probably be continued, in spite of domestic shortages.

3. Food Availability

Food currently reported (as of 1 December) to be in short supply are meat, fats, and flour. Shortages caused by threats of war in late October and early November temporarily depleted stocks of meat, flour, and salt in many local areas. There may be temporary shortages in areas dependent upon imports of potatoes. The unexpected freeze in November caught many potatoes unprotected in shipment, and they arrived at their destinations frozen. Procurement of Potatoes from the East has also been slow.

Includes grain, potatoes and sugar beets converted to a grain unit basis where grain = 1, potatoes and sugar beets each 0.25.

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The ability of the government to procure food from the private sector is a bigger problem during 1958/59 than last year. According to the speech of Gomulka in October an emergency collection was organized and despite government intentions to continue delivery quotas, are not meeting their obligations. This has already created difficulties in the collection of meat, bread, and potatoes. Unless the government is willing to purchase these commodities at a firm market price, there is little likelihood of the consent to market through government channels. Peasants will participate only better than urban workers, who have been provided an improvement both in the availability and the cost of food.

Purchasing Minister Hirtswinkel has stated that, "the government was committed to deliver over 2 million tons of grain by the end of November, but only 1.4 million tons were delivered. Last year at this same time 1.9 million tons had been delivered. Planned imports are insufficient to fill the gap caused by lagging deliveries." The collection of 1.4 million tons of grain should satisfy the requirements of the urban population until March. It is too early to estimate the quantities of grain to be available from free market purchases and exports, or the timing of the government's food grain from these sources should be entering marketing channels by February.

So-called "panic" buying for hoarding purposes, which swept through Polish cities in November, could, if continued, cause a breakdown in the food distribution system unless the government has adequate food reserves to draw upon. The reserves of meat and grain are adequate. A late sugar beet harvest and lag in deliveries to sugar refineries could cause a temporary shortage of sugar during December and January. A further complication would arise should the Polish Government export sugar during this same period.

Food shortages may be serious during the next 2 months in Poland. Various reports of panic buying have come out of this region during November. In addition, potatoes, a very important staple in the diet, are not supplied to this region by state farms and collection in the recovered territories. An early frost caught an estimated 33% of the potato crop still in the ground on these farms. Shipments of potatoes will have to come from other regions to supplement local supplies; any lag in shipments will create food shortages.

The transportation system should be watched very closely during the coming months. Shortages of coal, oil and gas could restrict the transportation of food, unless given top priority, thereby creating a bottleneck in the distribution of foodstuffs to workers.

Apart from the supply deficiencies noted above, there normally is a period of low food availability in April and extending into early May, before spring vegetables reach the market and when fall harvested crops have been largely consumed.

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1. East Germany

1. 1956 Agricultural Production

Gross agricultural production in East Germany in 1956 is estimated to have declined 6 percent from the 1955 level and 10 percent below the 1954 level. Grain production declined more sharply than the production of sugar beets or potatoes. See Table I below:

	1954 (1,000 MT)	1955 (1,000 MT)	Prod. 1956 (1,000 MT)	1956 as % of 1955
Wheat	4.6	1,016	975	
Barley	1,016	1,900	1,785	
Breadgrains	1,016	1,028	2,763	92%
Oats	535	636	551	
Rye	1,019	1,076	850	
Other grain	570	290	579	
Total grains	1,584	2,010	1,703	87%
Potatoes	11,700	9,646	11,526	90%
Sugar beets	6,000	4,935	9,600	97.7%
Sugar	(550)	(450)	4,700	95%
Gross Agr. Prod.	1,934	2,666	8,046	94%

While the decision whether to carry over livestock or to slaughter will be being made, and estimates must be tentative at best, it would appear that the substantially reduced feed base will force a reduction in hog numbers and permit a normal carryover in cattle numbers. Sheep and goat numbers will probably increase slightly.

2. Trade

East German dependence upon trade for foodstuffs will probably increase substantially in 1956/57. In the fall of 1956 the USSR provided financial assistance, to help East Germany in her efforts to import additional foodstuffs. Major agricultural items imported into East Germany in 1955 and the estimated 1956 requirements of these items are listed below:

	1955/56 (1,000 MT)	1956/57 (2,000 MT)
Breadgrains	250,000 - 400,000	400,000 - 650,000
Feedgrains	400,000 - 650,000	750,000 - 1,100,000

Includes grain, potatoes, and sugar beets converted to a grain unit basis where grain = 1, potatoes and sugar beets each 0.85.
Includes grain equivalent of feed potatoes.

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Within the Soviet Bloc the USSR, Poland, Hungary, Rumania, Bulgaria and Communist China supply East Germany with foodstuffs. Non-Bloc exporters of food to East Germany are numerous, but Canada, France and Argentina are among the most important.

While trade estimates for 1956/57 are highly speculative, it would appear that East German imports from the USSR can be expected to increase while imports from other Bloc areas except Communist China will probably decline. Greater reliance upon non-Bloc sources of supply will probably again be noticeable in 1956/57. The ability of East Germany to finance substantial increases in imports remains a point of conjecture.

3. Food Availability

The most important factor in determining the 1956/57 food supply remains the unsettled trade picture. It is believed, however, that the reduced domestic supply of bread and feed grains will not be made up by a corresponding increase in imports. The lack of an adequate fodder base will probably encourage above normal slaughter of livestock and will in the short run (Dec-Feb) increase the urban meat supply slightly. Reports of reduced export commitments of sugar, if confirmed, may increase the domestic per capita availability of sugar during 1957 in spite of a reduced 1956/57 sugar production.

Unless imports are substantially increased over 1955, food shortages in the spring of 1957 will become more pronounced than at any time in the past five years. Since the level of imports determines the level of consumption for the months of April and May, it must be assumed that East Germany will make a determined effort to negotiate for the needed increased imports. It should be noted, in this connection, that imports are consumed primarily in the major urban areas.

It is not possible, at the present time, to determine which areas in the GDR will experience the acute food shortages. It may be surmised that shortages will be greatest in the north and southwest, where 1956 weather conditions were most unfavorable. This area is also the most difficult to supply with imported foods, and the most heavily urbanized.

As with Poland, there is normally, apart from the supply deficiencies noted above, a period of low food availabilities in March, April, and early May.

It is unlikely that the promised abolition of rationing will be realized on 1 April 1957. Successful abolition of rationing depends upon the ability to increase reserves of meat, fat and sugar. Little hope of increasing meat and fat reserves during 1957 appears likely in view of the low fodder harvest of 1956. Sugar could be taken off the ration list by reducing the level of exports.

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COAL SYSTEM IN POLAND AND EAST GERMANY

A. Poland

Poland will not meet its 1956 goal for the production of hard coal and coke. Based on data for the period through October 15, Polish hard coal production is estimated at about 96 million tons, as compared with a goal of 97 million tons and actual production in 1955 of 94.5 million tons. Coke production is estimated at about 10.5 million tons or slightly less than the goal of 10.6 million tons.

Little information is available on the production of coal since October 15. Fragmentary information suggests, however, that the situation may have worsened since October. According to one report, a coordinator has been appointed to handle the distribution of what is described as "limited domestic coal supplies." According to the same report, coal allocations are to be cut in factories which consume the most energy per unit of product and covered areas where mine already been withdrawn; however, cuts are not to be made in industrial manufacturing consumer goods. The expressed intention to maintain the production of consumer goods probably extends to the maintenance of coal supplies for household consumption. As the absence of more precise information, however, the subsequent analysis will be based on production data for the period through October 15.

The effect of Poland's failure to meet plan goals need not necessarily be directly on the domestic economy, since the Poles have the option of reducing exports. Indeed, Gomułka announced on 3 December that this course would be followed. On the basis of this statement, the 1956 distribution of Polish coal is expected to be roughly as follows, in millions of tons; also shown is the distribution of 1955 production.

	1956	1955
Industry	40.0	37.0
Electric Power	10.5	9.5
Railroads	9.5	9.2
Sales to the Population	11.3	9.5
Allocations to Westerns	5.0	5.0
Exports	19.5	84.3
Total	95.8	94.5

In 1955, exports were 84.3 million tons; hence, prospective 1956 exports will be about 20 percent below those of last year. The principal factors in the decline have been (a) the failure to increase production, (b) increased domestic industrial use, and (c) increased sales to the population. The situation will be worse in 1957, when Polish exports, according to Gomułka, may decline to only 13 or 14 million tons.

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the impact of Poland's plan under-fulfillment and has increased requirements falls entirely on Germany, the major deficit will be on the accounts of the importers and on Poland's long-term ability to pay her economic debts. Disruptive data for 1956 show that each country was in the same pattern as in 1955, i.e., roughly one-third to the West, one-third to the Middle East, and one-third to the USSR. The decline from 6 million to slightly over 5 million tons exported on the Middle East has affected West Germany most seriously, by refusing its imports of Polish coal by as much as 1 million tons.

A 30 percent reduction in the volume of her principal exports, with a prospect of a further decrease of the same proportion in 1957, would kill her Poland's long-term balance of payments position. In 1956, however, the effect of the decrease in coal exports has been largely cushioned by the rapid rise in the price of coal in the Western European market. Western Europe has sharply decreased its imports from the U.S. because of a tight oil market and high freight charges, U.S. coal is selling at \$22 - \$23 per ton delivered. Recent Franco-Polish negotiations have been based on a price of \$17 for Polish coal and the British value their imports from Poland at \$16.50. These and data have not permitted a complete analysis, but rough indications are that Polish coal has increased in price in that important market by some 20 percent that the volume of exports has declined. Since European nations on Polish coal have not increased proportionately, the increase in the return to Poland on Western European exports may have been great. Recently announced Soviet discussions with Poland indicate that the USSR has agreed to credit Poland with "world-market" prices for coal shipped by train, and there is no reason to believe that the other East countries will fare any better.

The conditions which have given rise to the rapid advance of Atlantic freight rates can be expected to have a reflex influence in 1957. Poland's shortfall from coal and shipping shortages in that year will probably be much less than in 1956. We can expect, therefore, that the real squeeze on the Polish economy will come sometime in the summer or fall of 1957.

Obstacles to any increase in coal production in 1957 are the under-employment of past years, shortages of labor, equipment and spare parts, obsolete techniques, and the necessity of reducing overtime which in 1955 constituted 15.5 percent of the total time worked and accounted for 24.6 million tons of the total output. The effect of a reduction in overtime will be to lower output, unless the size of the labor force or labor productivity are increased.

West Germany

We estimate that coal requirements in the fourth quarter of 1956 will be approximately 25 percent higher and in the first quarter of 1957 as much as 30 percent higher than in the third quarter of 1956. It was during the third quarter of 1956, when overall demand was seasonally low, that the current

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critical fuel shortage started to develop. Stocks were not built up in time. With the increasing demand in October and November, and the continued reduction in planned shipments from Poland, industrial stocks were reduced to a reported two-day level at the end of October. Production was interrupted at some steel plants and electric generation facilities, in some cases as early as September. The most critical period of fuel shortage can be expected in late January or early February, when fuel demands should reach their winter peak and when low temperatures may impede the production of brown coal.

Because of the prospective further reductions in Polish exports, the reported shortfalls in planned production in the Deutsche basin of the RHR, and a 1.5 million tons increase in Hungarian import requirements in 1957, there is little prospect of a substantial increase in East German imports. Meanwhile, the railroads will presumably be kept operating on brown coal briquettes, production of which is about 5 percent under plan. As a result, a severe shortage will be put on the electric power and chemical industries, as well as on heavy metal, which usually rely on brown coal for their requirements.

Both raw brown coal and brown coal briquette production are behind plan in East Germany. Estimated production of brown coal in 1956 is about 203 million tons, as compared with an estimated plan of 210 - 212 million tons. Briquette production is estimated at about 51 million tons as compared with a plan of 53 million tons. Hard coal production of about 2.6 million tons a year is less than 25 percent of high priority requirements for hard coal and coke. The causes of the lag in production of brown coal and brown coal briquettes in East Germany have been inadequate investments for development, shortages and delays in delivery of equipment and spare parts, several weeks of bad weather in early 1956, and labor unrest. The amount of coal uncovered in the pits was reduced by more than 1 million tons in 1956, indicating a failure to remove overburden as rapidly as coal was being mined. As a result, a major effort will be required in the future on moving overburden at the expense of curtailed current production.

Approximately 65 percent of the raw brown coal is used to make briquettes (21 million tons being required for the production of 51 million tons of briquettes) and 30 percent for the generation of electric power. Exports and use by Soviet military forces account for about 15 percent of briquette production. The biggest user of briquettes is the chemical industry which probably takes about one-third of the supply available after exports and military use. House-hold use required roughly 15 percent, reported as 7 million tons in 1955. Thermal power stations and the railroads follow with about 10 percent each, but it should be noted that railroad consumption increases markedly if imported hard coal is in short supply. The remainder is distributed among other industrial users.

Gas works are the biggest users of hard coal in East Germany, requiring about 3 million tons per year. The hard coal required for making gas is of a higher quality than industrial or steam coal and cannot be replaced by brown coal briquettes or raw brown coal. Railroads are the second largest user of hard coal when available, but when it is scarce brown coal briquettes can be substituted. Some thermal power plants and industrial plants were designed for hard coal only and require a total of about 3 million tons a year. It

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is difficult to develop a use pattern for hard coal, since the pattern must conform with the amount available. From the standpoint of priority the gas, oil, thermal power plants, coke plants, and industrial users must be satisfied first. When their demands are satisfied, hard coal can be shipped to the railroads. Metallurgical grade coke is used chiefly in ferrous metallurgy and the chemical industry and there are no substitutes.

East Germany is critically dependent on imported Polish hard coal and coke. In 1955 total estimated imports were 6.3 million tons of hard coal and 1.6 million tons of coke, including 6 million tons of hard coal and 1.5 million tons of coke from Poland. Based on experience to date, total imports were equivalent to about 27 million tons of raw brown coal, and imports from Poland to about 23 million tons of raw brown coal. In 1955 imported hard coal represented about 70 percent of the total hard coal used in East Germany on a tonnage basis. It is believed 1956 requirements are at about the same level as 1955. Imports of metallurgical grade coke, 2.6 million tons in 1955, were 10 times the East German production of 400 thousand tons.

Firm data are not available on actual imports by East Germany in 1956. However, it is known that total Polish coal exports have declined drastically. Polish coal exports in 1956 will total 18.5 million tons as compared to 24.3 million tons in 1955. Assuming that shipments to East Germany in 1956 will be reduced proportionately, East Germany will receive at least 1 million tons of Polish hard coal less than last year. The coke short fall will probably be even more severe as Poland has shipped more coke to the West in 1956 than in 1955 and must meet its own increasing demands. Coke imports from Poland will probably be 400 to 500 thousand tons less than in 1955.

To meet these shortages it has been necessary to substitute brown coal briquettes for hard coal wherever feasible. Such action has reduced the heavy coal briquettes available for export. It is estimated that East Germany will be short 500 to 600 thousand tons of briquettes in its 1956 requirements for East Germany and West Berlin. This shortfall, plus increased imports of hard coal and coke from the USSR, allotments from stocks, and a slight increase in brown coal production over 1955, have alleviated the situation for the present, but there have been repercussions. Overall coal stocks are down to emergency supply, a dangerous minimum. West Germany has reportedly curtailed shipments of critical raw materials to East Germany. Plant furnaces have shut down for lack of coke and thermal electric power generation has been affected by the shortages of hard coal. Inter-coal trains are using 12 tons of briquettes for every ton of hard coal, regular express trains a 2 to 1 mix, and international trains to the Polish border only briquettes. In the past all these trains used only hard coal. In late November 70 percent of brown coal production was going to industry either in the form of briquettes or raw brown coal. In short, it is thought East Germany is practically on a hand-to-mouth basis with reference to coal and coke.

A severe cold snap accompanied by below freezing weather could raise havoc with the East German economy. Freezing of extraneous moisture in the transportation and coal seams and drainage water in the pits always affects production adversely. The present situation in the brown coal industry, coupled with the prospect of curtailed imports, will undoubtedly cause a revision of production goals under the Second Five Year Plan.

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